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8 **UNITED STATES BANKRUPTCY COURT**  
9 **NORTHERN DISTRICT OF CALIFORNIA**

10 In re  
11 PACIFIC GAS AND ELECTRIC  
12 COMPANY,  
13 Debtor.

No. 01-30923 DM  
Chapter 11  
Date: October 29, 2002  
Time: 1:30 p.m.  
Ctvm: 235 Pine Street, 22<sup>nd</sup> Floor  
San Francisco, California

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17 **DECLARATION OF PATRICIA A. MARTIN IN SUPPORT OF UNITED STATES**  
18 **TRUSTEE'S OBJECTION TO PROFESSIONAL FEE APPLICATIONS AND HIS REPORT**  
19 **ON CURRENT AND CUMULATIVE PROFESSIONAL FEES**

20 I, Patricia A. Martin, declare:

21 1. I am a Bankruptcy Analyst employed by the United States Department of  
22 Justice, Office of the United States Trustee for the Northern District of California. I am the  
23 U.S. Trustee bankruptcy analyst who has been assigned to review and monitor the  
24 professional fees in the Chapter 11 Pacific Gas and Electric Company case.

25 2. Pursuant to the Court's Order Establishing Interim Fee Application and  
26 Expense Reimbursement Procedure, entered July 26, 2001, the Office of the U.S. Trustee  
27 has received electronic transmission of various professionals' monthly invoices and formal  
28 fee applications. These electronic transmissions have been uploaded into a database, data

1 from which can then be downloaded into an Excel spreadsheet which allows an in-depth  
2 analysis of each fee application using a variety of methods.

3 3. Utilizing the method described above, I have reviewed the professionals' fee  
4 applications which are the subject of this hearing. I prepared the Report of Professional  
5 Fees and Expenses for Current Period (4/01/02 - 7/31/02 and Cumulative Case to Date  
6 (4/06/01 - 7/31/02) which is attached hereto as Exhibit 1.

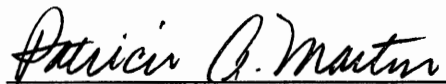
7 4. 14 Hour Days. One of the automated reports which I am able to run on  
8 professionals' fee applications queries the database for all days in which a particular  
9 individual has billed more than a specified number of hours. I requested such a report to  
10 identify 14 hour + days for the current billing period of April - July, 2002. The resulting report  
11 for Heller, Ehrman is attached as Exhibit 2. The resulting report for Howard, Rice is  
12 attached as Exhibit 3. The report shows the person's position in the firm, name, the date on  
13 which 14 hours + were billed, each specific time entry entered for that date, hourly rate,  
14 extended fee amount, the billing category for each specific entry and description of  
15 services.<sup>1/</sup>

16 5. Deloitte. Deloitte's fee application breaks the firm's current fees into three  
17 billing categories - successor company audits (\$575,791), tax consultations regarding the  
18 SF Utility Users Tax (\$4,293), and preparation of fee application (\$43,297). The firm's  
19 electronic transmission to the Office of the U.S. Trustee provides billing codes which allowed  
20 me to "drill down" deeper into the fees and break out the components of the successor  
21 company audit category. Attached hereto as Exhibit 4 is a summary sheet providing a  
22 further breakdown of the \$575,791 by billing category and which identifies the hours and  
23 fees charged to specific categories such as supervision and review (490 hours, \$164,471),  
24 budget and review (64.8 hours, \$17,892), understanding the client's business (24.8 hours,  
25 \$7,754), and understanding the methodology (15.8 hours, \$5,542). The summary sheet  
26 also provides a breakdown, by accountant, of the supervision and review fees. The specific  
27

28 <sup>1/</sup> The printed report will only reflect the first portion of the billing person's time narrative in the last column.

1 time entries which have been extracted from the firm's electronic fee transmission for the  
2 four cited categories are attached as exhibits as follows: Exhibit 5 - supervision and review;  
3 Exhibit 6 - budget and review; Exhibit 7 - Understanding the Client's Business; and Exhibit 8  
4 - Understanding the Methodology.

5 I declare under penalty of perjury that, to the best of my knowledge, the foregoing  
6 statements are true and correct, and, if called upon to testify thereon as a witness, I would  
7 be competent to so testify. Executed this 9th day of October, 2002 at San Francisco,  
8 California.

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11 Patricia A. Martin  
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Pacific Gas and Electric Company  
Case No. 01-30923 DM  
Chapter 11 Petition filed 4/6/01

Report of Professional Fees and Expenses for Current Period (4/01/02 -  
7/31/02) and Cumulative Case to Date (4/06/01 - 7/31/02)

Prepared by  
Office of the United States Trustee  
San Francisco, California  
October 9, 2002

**EXHIBIT 1**

## SUMMARY

- Current & Cumulative Fees and Expenses

Pacific Gas and Electric Company ("PG&E") filed Chapter 11 on April 6, 2001. This is the fourth hearing in which professionals employed in the bankruptcy case are seeking interim approval of their fees and expenses. This fee hearing generally covers the period from April, 2002 through July, 2002. The fees and expenses which are being sought for the current period and which have been incurred in the case since its inception are:

Current Period	Total Hours	Fees	Expenses	Total
4/01/02 - 7/31/02	52,621.4	\$16,571,127	\$ 739,226	\$ 17,310,352

Case to Date	Total Hours	Fees	Expenses	Total
4/06/01 - 7/31/02	184,122.3	\$60,976,786	\$ 3,382,536	\$ 64,359,322

- Excluded Fees and Expenses

The \$64.36 million "case to date" figure set forth above does not reflect all the professional fees and expenses being incurred as a result of PG&E's Chapter 11 bankruptcy and which ultimately may be charged to the debtor. PG&E Corp., the utility's parent and co-proponent of the utility's proposed plan, is represented by reorganization professionals including Weil, Gotshal, Dewey Ballantine, and others who have participated in plan formulation, preparation of the disclosure statement, plan prosecution, regulatory implementation, regulatory proceedings, appeals and key litigation. Section X.11 - *Summary of Other Provisions of the Plan - Fees and Expenses* - of Pacific Gas and Electric Company's disclosure statement states that its parent estimates that it will seek reimbursement in the amount of approximately \$110 million - \$75 million of which is estimated legal fees, \$23 million - financing costs, and \$12 million - accounting fees. In addition, there are certain other firms whom the debtor has hired to assist it in its reorganization which have not been parties to these fee hearings. For example, Celerity Consulting has charged for fees and expenses totaling \$8.6 million through July, 2002; Berger & Associates, \$1.5 million.

- Electronic Transmission of Detailed Time and Expense Entries

With a few exceptions, the firms employed in the PG&E case are submitting their detailed time and expense entries to the Office of the U.S. Trustee in electronic form. The electronic transmission of fees has expedited the review process, afforded the opportunity for in-depth analysis, and resulted in the ability to provide the court and interested parties with a comprehensive overview of the fees incurred in the case.

● Key Events and Substantive Issues - April through July, 2002

The firms' fee narratives provide synopses of key matters which each firm addressed between April - July, 2002. Some of the key events which occurred and substantive issues which were addressed during this four month period were:

- \* PG&E's disclosure statement was approved.
- \* The CPUC filed a competing plan. Its disclosure statement was approved.
- \* In May, 2002, the creditor's committee issued a report with its recommendation that creditors vote in favor of both PG&E's and the CPUC's plan. The committee declined to state a preference.
- \* On June 17, 2002, a solicitation package, including ballots, was sent to all creditors and equity interest holders entitled to vote on the two plans.
- \* Objections to both plans and summaries of proposed confirmation-related discovery were filed on or before July 17, 2002.
- \* On June 7, 2002, PG&E filed a motion to extend exclusivity to deter 3<sup>rd</sup> parties from submitting alternate plans through December 31, 2002. On June 24<sup>th</sup>, the creditor's committee requested the court allow it the option to file an alternate plan. On July 9, 2002, the bankruptcy court granted the committee's request and extended exclusivity to December 31, 2002 as to all parties except the CPUC and the committee.
- \* The Creditor's Committee and the CPUC negotiated towards modifying the CPUC plan into a joint CPUC/OCC plan.
- \* During this billing period, hundreds of claims objections covering thousands of claims and myriad types of claims were filed by the debtor and heard by the Court. A study was conducted to place a valuation on potentially allowed personal injury and property damage claims.
- \* PG&E's appeal of the Bankruptcy Court's March 18, 2002 order, which disapproved PG&E's disclosure statement based on the court's February 7, 2002 decision regarding express preemption, proceeded through the District Court as issues to the merit of the appeal and the appellate jurisdiction of the District Court were raised and briefed by the parties.
- \* On July 25, 2002, a United States District Court judge denied various motions for summary judgment in and motions to dismiss PG&E's filed rate case. A trial is now scheduled for June 9, 2003.
- \* Additional hearings took place at the FERC in April in FERC Docket RP00-241, the proceeding initiated by the CPUC against El Paso and its affiliates which alleged market manipulation. PG&E is a participant in the proceeding.
- \* In response to mounting evidence of potential market games, the FERC commenced an investigatory proceeding (PA02-2) requiring extensive document production by participants in the western electric and gas markets from 2000 and 2001 which resulted in discovery requests of PG&E as a net buyer.

- \* PG&E's regulatory applications filed with the the FERC, SEC, and the NRC proceeded through various hearings. These applications seek authority to transfer key assets, contracts and operating licenses to successor entities as part of the proposed disaggregation of the company. The applications are being contested by various regulatory arms of the State of California, consumer groups, municipalities, and other constituencies.
- \* On July 29, 2002, the CPUC filed an adversary proceeding (#AP02-3203) against PG&E, its parent, and solicitation agent D.F. King seeking injunctive relief alleging that PG&E, its parent and D.F.King were disseminating false and misleading statements to creditors and equity-holders in an attempt to influence voting thereby causing irreparable damage to the voting constituencies and the CPUC.

● "Focus" Areas

The Office of the U.S. Trustee has defined certain focus areas which generally correspond to the substantive billing matters and key issues set forth above. Using the professionals' billing categories when available and extracting information by sorting techniques when not readily available, the Office of the U.S. Trustee has combined the firms' fees associated with each focus area to approximate the overall cost of each matter.<sup>1/</sup> Based on the method employed by the Office of the U.S. Trustee, the costs incurred for the subject billing period and case to date in various key matters in the case are as follows:

Focus Area	Key Matters/Comments	Firms Involved	Fees Incurred
Underlying dispute and impasse between PG&E, the CPUC, DWR, State of California, et al.	This focus are includes the filed rate case, block forward contract litigation, ABX6 breach of contract claim, Turn Accounting Adversary Proceeding, CPUC Order Instituting Investigation, and related regulatory monitoring.	Howard Rice Heller Cooley, Godward Milbank, Tweed Pricewaterhouse	<u>April - July, 2002</u> 7,037.3 hours \$2,132,828
			<u>Case to Date</u> 36,037.2 hours \$11,152,770
Mediation	Professionals' fee applications indicate mediation essentially ceased in March, 2002.	Howard Rice Milbank	<u>Case to Date</u> 393.8 hours \$206,077
PG&E Plan Implementation	On November 30, 2001, PG&E and its parent filed various applications at the FERC and the NRC to implement PG&E's plan. On January 31, 2002, an application was filed with the SEC under the Public Utility Holding Company Act.	Winston & Strawn Skadden Arps Deloitte, Touche Various Economic Consultants Howard Rice (Newco contracts)	<u>April - July, 2002</u> 9,537.7 hours \$2,521,454
			<u>Case to Date</u> 34,770.6 hours \$ 9,394,715

<sup>1/</sup> Rothschild and Saybrook, financial advisors to PG&E and the creditor's committee respectively, are employed under a monthly fee arrangement. For the purposes of this analysis, all of the firms' fees were allocated to PG&E's plan because hours and/or billing matter allocations were not available.

Focus Areas, Continued

Focus Area	Key Matters/Comments	Firms Involved	Fees Incurred
Express Preemption Issue/Appeal	On February 7, 2002, the court ruled against PG&E's interpretation of preemption available under the bankruptcy code. PG&E and its parent appealed the court's subsequent order dated March 18, 2002, to the US District Court.	Howard Rice Cooley, Godward Milbank, Tweed	<u>April - July, 2002</u> 2,070.8 hours \$ 588,716
			<u>Case to Date</u> 3,490.2 hours \$ 1,020,780
Confirmation-Related Discovery		Howard Rice Cooley Milbank, Tweed	<u>April - July, 2002</u> 4,328.6 hours \$1,184,652
			<u>Case to Date</u> 4,774.8 hours \$ 1,317,264
PG&E's Disclosure Statement and Plan	On April 24, 2002, PG&E's disclosure statement was approved after it was amended consistent with the court's February 7, 2002 preemption decision.	Howard Rice Ernst & Young Rothschild Cooley, Godward Milbank, Tweed Pricewaterhouse Saybrook	<u>April - July, 2002,</u> 4,077.6 hours \$3,071,349
			<u>Case to Date</u> 16,597.1 hours \$12,633,477
CPUC's Disclosure Statement and Plan	The CPUC filed its alternative plan and disclosure statement on April 15, 2002. The disclosure statement, after amendment, was approved on May 17, 2002.	Howard Rice Milbank Pricewaterhouse	<u>April - July, 2002</u> 1,817.1 hours \$777,602
			<u>Case to Date</u> 2,319.7 hours \$995,757
Claims Analysis, Review and Resolution	This focus area includes general claims, generator claims, QF claims, Wayne Roberts, Grynberg litigation, Baldwin claim, personal injury claims.	Howard Rice Ernst & Young National Econ.Research Milbank, Tweed Pricewaterhouse	<u>April - July, 2002</u> 6,112.0 hours \$1,554,068
			<u>Case to Date</u> 10,995.1 hours \$3,035,165



## Focus Areas, Continued

Focus Area	Key Matters/Comments	Firms Involved	Fees Incurred
Other Regulatory Matters	This focus area includes FERC Fact-Finding Investigation, FERC Docket EL-0095 (seeking refunds for overcharges), FERC Docket RP00-241 (El Paso matter).	Heller, Ehrman Cooley, Godward Skadden, Arps Winston Strawn Steeffel, Levitt Public Policy Advocates	<u>April - July, 2002</u> 7,778.0 hours \$2,071,819
			<u>Case to Date</u> 27,634.3 hours \$7,605,115
See Exhibit A for breakdown of 100% of fees into U.S. Trustee defined focus areas.			

### ● Other Comments

Plan confirmation trials commence on November 18, 2002. At a minimum, there will be two more fee hearings related to pre-confirmation fees and expenses.

Cover sheet applications which have been submitted thus far for the month of August, 2002 indicate that an additional \$4.9 million in fees and expenses were incurred during that month.

PG&E's primary professionals' fees increased from the previous billing period - Howard Rice (+32.88%), Heller Ehrman (+24.79%) and Cooley Godward (+45.16%).

The fees of PG&E's professionals who are providing services related to the regulatory implementation of PG&E's proposed plan decreased from the previous billing period - Deloitte Touche (-63.45%), Winston Strawn (-33.09%), and Skadden Arps (-24.32%).

Creditor committee's counsel's and accountant's fees decreased from the previous billing period - Milbank Tweed (-9.56%) and Pricewaterhouse (-14.33%).

Changes in professionals' hourly rates are reflected within the information set forth in Exhibits H-N.

### ● Attached Exhibits

A Summary of Fees by Firm and By Focus Area, as Defined by Office of U.S. Trustee

#### Supportive Schedules to Exhibit A

B Summary of Fees - Impasse between PG&E, CPUC, State of California et al.

C Summary of Fees - PG&E Plan of Reorganization, Preemption, Confirmation-Related Discovery, Plan Implementation (Regulatory Applications)

D Summary of Fees - Mediation, CPUC Plan, Creditor Committee Plan

E Summary of Fees - Qualifying Facilities, Power Producers, Suppliers

F Summary of Fees - General Bankruptcy, Creditor Committee Matters, Claims, and Other Regulatory Matters

G Percentage Changes in Fees from Current Billing vs. Previous Billing (Primary Professionals)

- H Howard Rice - by Focus Area (H-1), 20 Most Active Attorneys by Billing Categories (H-2), and by Attorney (H-3)
- I Heller, Ehrman - by Focus Area (I-1), Top Billing Categories - Current Period (I-2), and by Attorney (I-3)
- J Cooley, Godward - by Focus Area (J-1) and by Attorney (J-2)
- K Deloitte & Touche - by Accountant (K-1) and by Billing Categories (Exhibit 4)
- L Milbank, Tweed - by Focus Area (L-1), 8 Most Active Attorneys by Billing Categories (L-2) and by Attorney (L-3)
- M Pricewaterhouse - by Focus Area (M-1) and by Accountant (M-2)
- N Skadden, Arps - by Focus Area (N-1) and by Attorney (N-2)